

Message Text

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ORIGIN PM-02

INFO OCT-01 NEA-01 ISO-00 /004 R

66610

DRAFTED BY: PM/SAS:DNIEMI:RG

APPROVED BY: PM/SAS:DWMCLINTOCK

NEA/ARP:CCECIL

----- 107782

R 181942Z AUG 75

FM SECSTATE WASHDC

TO USMTM DHAHRAN

C O N F I D E N T I A L STATE 186121

FOLLOWING REPEAT STATE 186121 ACTION JIDDA SEOUL 06 AUG

QUOTE

C O N F I D E N T I A L STATE 186121

E.O. 11652:GDS

TAGS: - , SA, KS

SUBJECT: PROPOSED WORKING FUND FOR FOREIGN MILITARY SALES

1. DOD HAS PROPOSED THAT WORKING FUNDS BE ESTABLISHED TO FACILITATE PROMPT PAYMENT OF AMOUNTS DUE IN CONNECTION WITH FMS PURCHASES BY SAUDI ARABIA AND KOREA. IN SUGGESTING THE ESTABLISHMENT OF SUCH FUNDS, DOD HAS NOTED THAT PAYMENTS DUE THE USG FROM THESE COUNTRIES ARE SOMETIMES DELAYED FOR EXTENDED PERIODS, CREATING CASH FLOW PROBLEMS WITHIN OUR MILITARY DEPARTMENTS.

2. AS ENVISAGED BY DOD, THE GOVERNMENTS OF SAUDI ARABIA AND KOREA WOULD MAKE ANNUAL CASH ADVANCES TO THE US TREASURY DEPARTMENT. THEREAFTER, DOD WOULD MAKE MONTHLY WITHDRAWALS FROM THE WORKING FUND ON AN AS-REQUIRED BASIS. AN ACCOUNTING FOR SUCH WITHDRAWALS WOULD BE PROVIDED TO THE
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COUNTRY INVOLVED. AS AN INCENTIVE FOR THE ROKG AND SAG

TO ESTABLISH A WORKING FUND, INTEREST WOULD BE PAID ON THE UNDISBURSED DEPOSITS. (THESE ARRANGEMENTS ARE PATTERNED AFTER AN AGREEMENT IN EFFECT BETWEEN THE USG AND THE FRG).

3. TREASURY HAS REVIEWED THE DOD PROPOSAL AND AGREES WITH

THE CONCEPT. TREASURY CONCURS THAT THE INTEREST RATE ON UNDISBURSED BALANCES SHOULD BE EQUIVALENT TO THE CURRENT COST OF FUNDS TO THE USG, LESS AN APPROPRIATE CHARGE FOR ADMINISTRATIVE COSTS. THE AMOUNT OF THAT CHARGE WOULD BE WORKED OUT BETWEEN TREASURY AND DOD.

4. THE WORKING FUNDS WOULD BE ESTABLISHED THROUGH EXCHANGE OF NOTES IN WASHINGTON. THE TEXT OF A DRAFT PREPARED BY DOD AND REVISED BY TREASURY FOLLOWS:

QUOTE: EXCELLENCY: I HAVE THE HONOR TO PROPOSE A NEW METHOD OF PAYING FOR MILITARY EQUIPMENT, MATERIALS, AND SERVICES THAT ARE SOLD BY THE UNITED STATES OF AMERICA TO THE GOVERNMENT OF PURSUANT TO THE FOREIGN MILITARY SALES ACT. THE NEW METHOD OF PAYMENT IS PROPOSED TO SIMPLIFY EXISTING FINANCIAL PROCEDURES AND TO PROVIDE THE GOVERNMENT OF WITH A FAIR RATE OF INTEREST RETURN ON CERTAIN FUNDS THAT HAVE BEEN DEPOSITED WITH, BUT NOT YET EXPENDED BY, THE GOVERNMENT OF THE UNITED STATES. THE PROPOSED METHOD OF PAYMENT FOLLOWS:

WITH A VIEW TO FACILITATING THE EXECUTION OF SALES AGREEMENTS BETWEEN OUR COUNTRIES PURSUANT TO THE FOREIGN MILITARY SALES ACT AND IN ORDER TO PROVIDE THE GOVERNMENT OF THE UNITED STATES A REASONABLE WORKING FUND (HEREAFTER REFERRED TO AS A DEPOSIT FUND), THE GOVERNMENT OF WILL MAKE PAYMENTS IN UNITED STATES DOLLARS INTO AN ACCOUNT TO BE ESTABLISHED AND ADMINISTERED BY THE SECRETARY OF THE TREASURY, ENTITLED "SECRETARY OF THE TREASURY, DEPARTMENT OF DEFENSE, MILITARY PURCHASES BY ."

TO INITIALLY ESTABLISH THE DEPOSIT FUND, THE UNITED STATES DEFENSE SECURITY ASSISTANCE AGENCY SHALL REQUEST PAYMENT FROM THE GOVERNMENT OF IN
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AN AMOUNT EQUIVALENT TO THE ESTIMATED COSTS THAT THE GOVERNMENT OF THE UNITED STATES IS EXPECTED TO INCUR ON BEHALF OF THE GOVERNMENT OF DURING THE FORTHCOMING YEAR AS A RESULT OF EXISTING FIRM MILITARY SALES ORDERS PLACED BY THE GOVERNMENT OF WITH THE GOVERNMENT OF THE UNITED STATES. THESE ESTIMATED COSTS INCLUDE THE PRICE OF ANTICIPATED SERVICES AND DELIVERIES OF EQUIPMENT AND MATERIEL; NECESSARY ADVANCES AND PROGRESS

PAYMENTS, AS WELL AS ANY DAMAGES AND COSTS THAT MAY ACCRUE FROM CANCELLATION OF CONTRACTS DURING THE FORTHCOMING YEAR. THE ANNUAL DEPOSIT WILL BE REQUESTED BY THE UNITED STATES DEFENSE SECURITY ASSISTANCE AGENCY AT A TIME ON OR ABOUT THE BEGINNING OF THE FISCAL OR BUDGET YEAR OF THE GOVERNMENT OF . IN ORDER THAT THE DEPOSIT FUND

MAY BE MAINTAINED AT ALL TIMES IN AN AMOUNT SUFFICIENT TO COVER PAYMENTS AND COSTS INCURRED BY THE GOVERNMENT OF THE UNITED STATES ON BEHALF OF THE GOVERNMENT OF THE GOVERNMENT OF WILL MAKE SIMILAR ANNUAL DEPOSIT FUND REPLENISHMENT DEPOSITS EACH YEAR THEREAFTER. THE ANNUAL DEPOSITS SHOULD BE MADE TO THE UNITED STATES DEPARTMENT OF THE TREASURY 30 DAYS AFTER THE GOVERNMENT OF RECEIVES NOTIFICATION FROM THE DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY OF THE AMOUNT DUE.

IN ADDITION TO THE ANNUAL DEPOSITS INTO THE DEPOSIT FUND, A DEPOSIT INTO THE FUND SHALL ALSO BE MADE AT THE TIME EACH NEW FIRM SALES ORDER IS PLACED BY THE GOVERNMENT OF . THE AMOUNT OF THE DEPOSITS TO BE MADE WHEN NEW SALES ORDERS ARE PLACED SHALL BE SUFFICIENT TO PAY ALL COSTS TO THE GOVERNMENT OF THE UNITED STATES RELATED TO THE MILITARY SALES CASE FOR A PERIOD OF ONE YEAR, OR IN AN AMOUNT EQUAL TO BUT NOT LESS THAN 15 OF THE TOTAL ESTIMATED PRICE INDICATED IN EACH LETTER OR OTHER COMMUNICATION OF OFFER PURSUANT TO WHICH SUCH ORDER IS PLACED.

EACH MONTH THE UNITED STATES DEPARTMENT OF DEFENSE WILL WITHDRAW SUFFICIENT FUNDS FROM THE DEPOSIT FUND TO COVER THE COSTS OF ANTICIPATED SERVICES AND DELIVERIES OF EQUIPMENT AND MATERIELS, NECESSARY ADVANCES AND PROGRESS PAYMENTS, AS WELL AS ANY DAMAGES AND COSTS THAT MAY

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ACCRUE FROM THE CANCELLATION OF CONTRACTS DURING THE FORTHCOMING MONTH. AT THE TIME THE DEPARTMENT OF DEFENSE MAKES WITHDRAWALS OF FUNDS FROM THE DEPOSIT FUND, AN ITEMIZED LISTING WILL BE GIVEN TO THE MINISTER OF DEFENSE WHICH WILL SHOW THE SPECIFIC SALES CASES THAT THE FUND WITHDRAWALS WILL BE USED FOR. THE ITEMIZED LISTING WILL ALSO INCLUDE A DETAILED ACCOUNTING OF EACH CASE AFFECTED SHOWING THE TOTAL CASE VALUE, THE AMOUNT PAID ON THE CASE TO DATE, AND THE ESTIMATED RESIDUAL AMOUNT TO BE PAID IN THE FUTURE. ANY QUESTIONS BY THE GOVERNMENT OF REGARDING SUCH WITHDRAWALS WILL BE DISCUSSED BY REPRESENTATIVES OF THE TWO GOVERNMENTS AND ANY NECESSARY ADJUSTMENTS WILL BE MADE IN SUBSEQUENT WITHDRAWALS.

IT IS UNDERSTOOD THAT THE GOVERNMENT OF THE UNITED

STATES WILL INVEST THE AMOUNT OF UNITED STATES DOLLARS THAT HAVE BEEN DEPOSITED INTO THE ABOVE-DESCRIBED FUND UNTIL SUCH TIMES AS THE FUNDS ARE ALLOCATED FROM THE DEPARTMENT OF THE TREASURY DEPOSIT FUND TO THE DEPARTMENT OF DEFENSE. SUCH INVESTMENTS SHALL BE MADE IN SPECIAL

PAR VALUE ONE-MONTH TREASURY CERTIFICATES OF INDEBTEDNESS MATURING ON THE FIRST DAY OF THE MONTH FOLLOWING THE DATE OF ISSUE (IN MULTIPLES OF ONE THOUSAND DOLLARS) AND ROLLED-OVER MONTHLY INTO THE NEW APPLICABLE INTEREST RATE. THE RATE OF INTEREST TO BE PAID ON SUCH SPECIAL ISSUES WILL BE THE AVERAGE TRUE DISCOUNT RATE FOR THE 13 WEEK TREASURY BILLS LAST AUCTIONED IN THE PRECEDING MONTH TO TWO DECIMAL PLACES REDUCED BY PERCENT. THE INTEREST EARNED SHALL REMAIN IN THE DEPOSIT FUND AND BE USED TO SUPPLEMENT THE DEPOSITS MADE BY THE GOVERNMENT OF . AN ANNUAL STATEMENT OF DEPOSIT FUND TRANSACTIONS AND INTEREST EARNINGS SHALL BE PROVIDED THE GOVERNMENT OF

AFTER FINAL SETTLEMENT WITH THE UNITED STATES DEPARTMENT OF DEFENSE OF AMOUNTS DUE AS A RESULT OF ALL ORDERS PLACED BY THE GOVERNMENT OF PURSUANT TO THE PRESENT ARRANGEMENTS, THE SECRETARY OF THE TREASURY WILL RETURN TO THE GOVERNMENT OF ANY BALANCES OF CASH REMAINING IN THE DEPOSIT FUND.
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THE GOVERNMENT OF WILL ENJOY THE SAME EXEMPTIONS FROM UNITED STATES FEDERAL TAXATION AS THE UNITED STATES GOVERNMENT WITH RESPECT TO ORDERS PLACED PURSUANT TO THESE ARRANGEMENTS.

I HAVE THE HONOR TO PROPOSE THAT THIS NOTE, TOGETHER WITH YOUR REPLY CONFIRMING THESE ARRANGEMENTS, CONSTITUTE AN AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF , EFFECTIVE ON THE DATE OF YOUR NOTE. END QUOTE.

5. ACTION REQUESTED: BEFORE RESPONDING TO DOD, WE WOULD APPRECIATE YOUR COMMENTS ON BOTH THE CONCEPT OF AN FMS WORKING FUND AND THE SPECIFIC ARRANGEMENTS DESCRIBED IN THE DRAFT NOTE. KISSINGER UNQUOTE SISCO

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FUND ALLOTMENT, MILITARY SALES, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE186121
Document Source: CORE
Document Unique ID: 00
Drafter: PM/SAS:DNIEMI:RG
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750285-0750
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750843/aaaabloe.tel
Line Count: 217
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 JUL 2003 by ShawDG>; APPROVED <19 NOV 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED WORKING FUND FOR FOREIGN MILITARY SALES
TAGS: EFIN, MARR, SA, KS, US
To: USMTM DHAHRAN
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006